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DEPARTMENT OF STATE

Washington, D.C. 20520

February 6, 1984

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Executive Registry

84- 647

Senior Interagency Group No. 34

TO: NSC - Mr. Robert Kimmitt
Energy - Mr. William Vitale
Commerce - Mrs. Helen Robbins
Defense - Col. John Stanford
OMB - Mr. Alton Keel
OPD - Mr. Edwin Harper
Treasury - Mr. David Pickford
Interior - Mr. Barry Allbright
Transportation - Mr. Logan H. Sallada
USTR - Dennis Witfield
CIA - [redacted]

SUBJECT: IESG Meeting: Summary of Discussion

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Attached are Summaries of Discussion of the IESG meetings held on January 17 and January 20, 1984 and lists of those who attended.

Copy
Charles Hill
Executive Secretary

Attachments:

As stated

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International Energy Security Group Meeting

January 17, 1984

Summary of Discussion

Under Secretary Wallis opened the meeting by outlining organizational decisions made at a December 13 White House meeting on energy emergency coordination. The danger of an oil cut-off in the Persian Gulf provided the incentive to undertake a comprehensive emergency response planning exercise. The two umbrella coordination groups which had been established would not focus exclusively on the response to possible disruptions in the Gulf but rather would aim at a response strategy broadly applicable to any future oil supply emergency. The Energy Response Working Group, chaired by Secretary of Energy Hodel, would concentrate on analysis of domestic responses. The International Energy Security Group, chaired by the Department of State, would examine international and national energy security issues, including IEA policies and programs. (The attached organization charts for the two groups were distributed.)

Under Secretary Wallis introduced Don Pearlman, Executive Assistant to Secretary Hodel, who would serve as DOE's liaison with the State-chaired group, and noted that Ambassador Richard Fairbanks (State) would chair the IESG in his (Wallis') absence. Mr. Wallis stressed the need for full cooperation and close interaction between the two groups. Three subgroups had been constituted under IESG jurisdiction. Treasury had agreed to chair the subgroup on International Economic Policy; the Department of Defense, the subgroup on National Security Energy Requirements; State, the International Energy Policy subgroup (Chairman: E. Allan Wendt, Deputy Assistant Secretary of State for International Energy and Resources Policy). The IESG agreed to the DOD request to participate in the economic and energy policy subgroups.

Before turning to the subject of work programs, Under Secretary Wallis asked James Placke, Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs, to describe the current situation in the Persian Gulf. Mr. Placke said that the USG's current policy course in the Gulf area stemmed

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from the events of the summer of 1983: Iraq's financial situation had deteriorated, leading to the purchase of French Super Etendard planes and Exocet missiles and the threat to use them against Iranian oil facilities. In turn, Iran had threatened to close the Gulf in response to an Iraqi attack. Since that time the Iraqi financial situation has changed as a result of the Iraqis having reduced their foreign exchange outlays to the level of current consumption and having leaned heavily on their Gulf neighbors for increased financial assistance. In response to the latter, Saudi Arabia and Kuwait were selling a total of 400,000-500,000 b/d of oil for the Iraqi account. Cash transfers from Gulf states to Iraq had increased as well, although not to a level comparable to that of the first 18 months of the Iran-Iraq conflict. If the current financial situation persisted, the Iraqis could maintain their present level of military activities as well as an acceptable level of domestic economic activity.

Mr. Placke noted Iraqi efforts to increase its oil export capacity (pipeline through Turkey; proposed linkage with the Saudi Petroline). Nonetheless, in a war of attrition, Iraq would come out on the short side. He also noted the incipient Japanese role in the Gulf conflict. If the Iranians permitted Japanese technicians to reconstruct Iraqi oil export facilities on the Gulf, the guid might be Iraqi acceptance of further Japanese work at the unfinished Iranian petrochemical complex at Bandar Khomeni. The Japanese effort was useful in buying time in the conflict, but mediation could take weeks or months to play out. Tensions may have been ameliorated recently, but the situation in the Gulf was still unstable and beyond anyone's capacity to control.

Ambassador Fairbanks added that USG efforts were aimed at avoiding an escalation of the Gulf war. The jury was still out on how effective these could be. A major issue was arms sales to the combatants. Some countries had been helpful; others had not.

Introducing discussion of the emergency response work program, Under Secretary Wallis observed that in assigning the State Department responsibilities to the IESG, the Secretary had been guided by the President's admonition not to set up new command and control functions. He recalled that since receiving its mandate from the NSC in November, 1982, the IESG had involved itself in follow-up to the Soviet pipeline, focusing in particular on IEA energy requirements; in Alaskan oil exports; the US-Japan Energy Working Group; energy alternatives for Europe; the energy situation in the Middle East; and the antitrust waiver authorization for US oil company participation in the IEA sharing system (EPCA 252).

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Mr. Pearlman said that DOE's Energy Response Working Group included a Data Base and Projections Subgroup (chaired by the Energy Information Agency) which had already met several times. It had substantial analytical and econometric modelling capabilities and could serve State's data needs as well. Noting that there appeared to be a certain amount of overlap between the DOE- and State-chaired energy policy groups, he felt nonetheless that the extent to which one or the other group would handle an issue could be worked out on an ad hoc basis. Bart Hause would serve as chairman of DOE's Domestic and International Energy Policy Group.

Commenting that the work programs for the IESG subgroups (attached) were purely tentative at this stage, Under Secretary Wallis asked Allan Wendt to describe the issues to be addressed in the international energy policy area. Mr. Wendt said the outline was fairly straightforward, covering, for example, coordination of stock policies among IEA members. Considerable coordination between DOE and State would be required.

Mr. Pearlman commented that there were a number of issues, for example, (b), (d) and (f) under "IEA Policy and Programs" which had enormous domestic implications. He wondered if it might be useful to consider forming a special joint subcommittee of the Hause and Wendt subgroups to address topics of mutual interest. Mr. Wallis commented that the idea had merit. Such a body might evolve, but it should not be imposed now.

Mr. Albrecht (State) and Mr. Tarbell (DOD) inquired where issues concerning bilateral contacts with consuming countries such as Portugal, Israel, and Korea, would be addressed in the work program. Some of these countries were not IEA members but had stand-by arrangements with the US. Mr. Tarbell said it would be important to ensure that countries did not beat on the USG door for energy supplies in the event of a supply disruption, as had occurred with Turkey. Under Secretary Wallis responded that this was a good point; DOD would have an interest in certain countries but not others. The work program should take account of this.

Mr. Tarbell added that some issues in the work program were energy-specific while others were financial in nature. It was important to coordinate the proposed policy responses to both; otherwise the commitments under consideration could be a house adding up to more than the available materials. Under Secretary Wallis agreed, noting that crux of the response to many of these issues would be the extent to which the US relied on market forces.

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Mr. Martin (NSC) commented that NSDD 87 should form the basis for the current exercise. The work of the State and DOE groups should be to give operational content to present policy. Under Secretary Wallis agreed.

Mr. Wendt noted that NSDD 87 implied a number of other studies which were never carried out. The current exercise should serve to fill these gaps.

Mr. Pearlman pointed out that US energy trade issues had considerable domestic impact. As was the case with coordination of US stock policy with other IEA countries, the State- and DOD-chaired groups would have to coordinate closely. The security implications of the topics "Bilateral and Multilateral Issues" and "Transportation Security and Advance Warning Issues" were being addressed by the Interagency Damage Assessment Team (IDAT) which reported to DOE's Data Base and Projections Group. The IDAT would consider how to realistically assess damage to production facilities, the effect of such damage on supplies and how long it would take before production could be restored.

[] (CIA), Chairman of IDAT, said that his group would examine, inter alia, ways in which damaged facilities could be bypassed. Mr. Pearlman noted that the IDAT work might have a bearing on alternative pipeline arrangements in the Gulf area. Mr. Placke commented that an increase in exports of Iraqi crude implied such alternative facilities. He noted Ambassador Rumsfeld's recent discussions with Saddam Hussein on a possible USG role in encouraging increased Iraqi oil exports. A good deal of follow-up work had already been done in this area.

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Mr. Tarbell asked what was intended by the inclusion of work on military capabilities (V-B) and response strategy (V-A). Under Secretary Wallis replied that the capability of the military to keep the Gulf open, e.g., mine sweeping and tanker escort, was a key question. Mr. Placke remarked that this was the nexus between our concerns about energy and security. For example, we would not want to exert maximum military pressure if we were relaxed about the energy situation. The military response would depend on what our energy requirements were.

Mr. Tarbell cautioned the group not to expect a great deal of specificity with regard to military capabilities and planning. If the group had particular questions, however, DOD would try to field them. Under Secretary Wallis acknowledged that there would be some questions it would be unwise to ask

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and equally unwise for DOD to answer. Mr. Wendt agreed but stressed the need for the group's work at least to touch on these subjects. Constructing operational scenarios would be a key feature of the IESG's work.

Mr. Martin said that the NSC envisioned having a report from the IESG in about a month. The more operational the better. The group should plan in terms of a product useful to Cabinet members, perhaps something similar to the McNamar book. Under Secretary Wallis underscored the importance of meeting the short deadline; the danger of an escalation of the conflict in the near term made this imperative.

Mr. Schotta (Treasury) said that topics 1 and 2 included in the tentative work program for the international economic policy group were already under discussion in DOE's Data Base and Projections Group. Topics 3 and 4 would certainly be examined. There was a particular need for analysis of possible new demands on IMF and multilateral development bank resources in the event of a crisis. Under Secretary Wallis commented that priorities would have to be examined as there would be a vastly greater demand for resources than the US could meet.

Commenting on the tentative work program for the national security energy requirements subgroup, Mr. Tarbell said that many of the issues surrounding direct military fuel requirements had already been resolved or were subsumed under broader issues the IESG planned to address. Current policy dictated that DOD try to obtain fuel supplies on the open market and pay the market price. To the extent that needs could not be met in this way, there were a variety of means available short of direct allocation. If there were an escalation of the Iran-Iraq conflict and the US became engaged militarily, direct fuel requirements would be part of overall military planning. Fulfillment of indirect requirements consequent on an oil supply emergency would have to be discussed in context of other policies. Mr. Tarbell noted that the Defense Production Act was used on a daily basis. It was not a wrenching process to invoke it. DOD hoped that the IESG could spend time on the broader issues before it rather than on the analytical efforts suggested for the national security subgroup.

Mr. Hause (DOE) cautioned that it was important to assess total potential US energy demand in the event of a supply disruption. We had only 15 million barrels per day of supply. As policy makers needed to understand what all of our piecemeal commitments meant, an analytical effort had to be made. Mr. Cohen (CIA) commented that the real question was how sensitive energy demand would be under various shortage scenarios.

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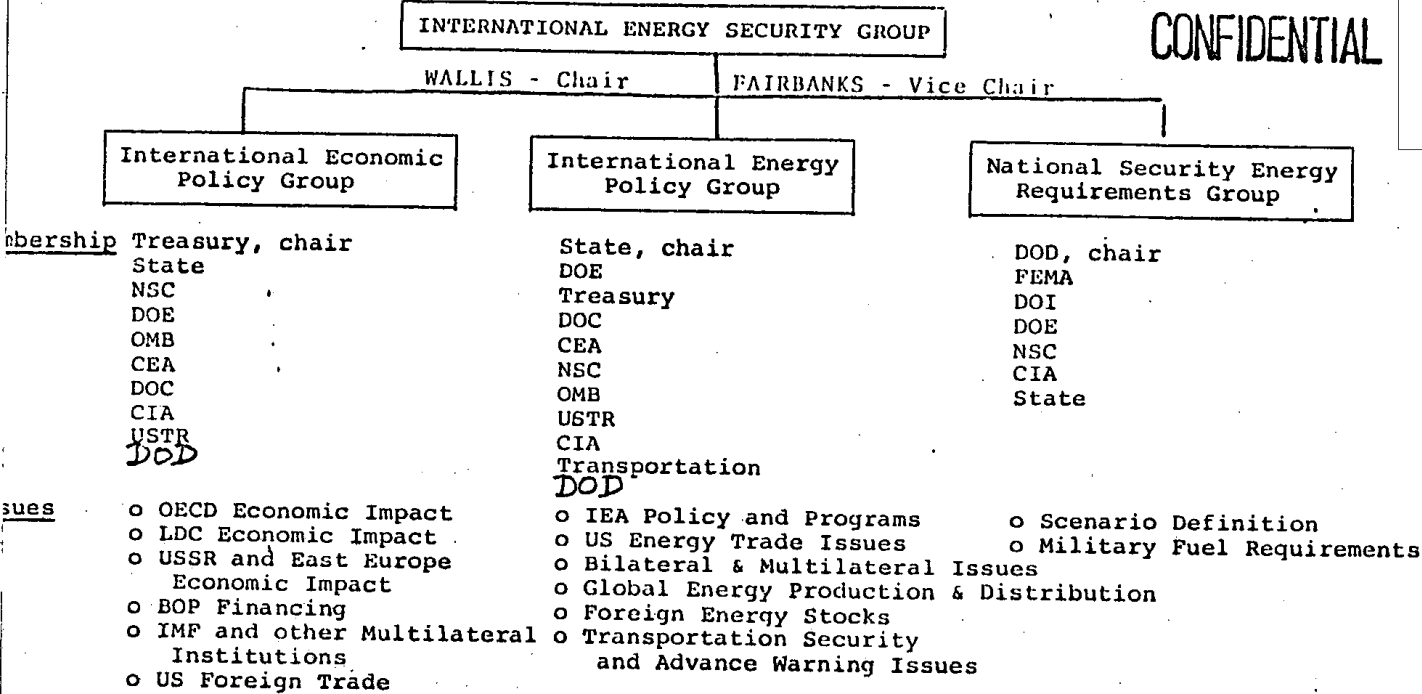
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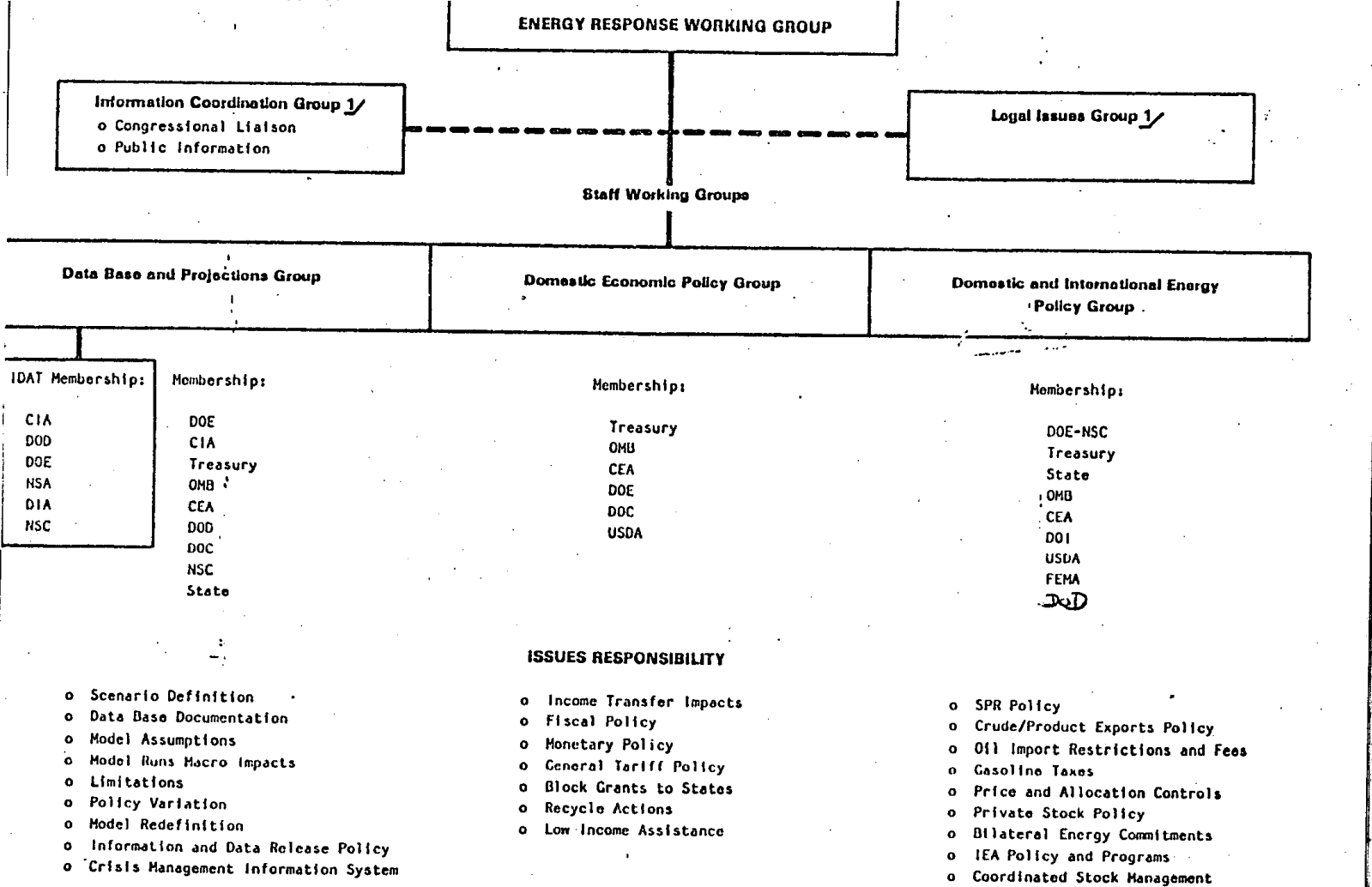
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Taking the chair for Under Secretary Wallis, Ambassador Fairbanks asked that the IESG subgroups convene as soon as possible to finalize work programs and schedules for completion of papers. The IESG would meet again on Friday, January 20 at 2:00 p.m. to approve these plans. He asked that Messrs. Wendt (State) and Hause (DOE) work out an organizational framework for handling those issues of interest to both of their subgroups. Ambassador Fairbanks reiterated that the IESG's work should be completed in one month--the sooner the better in light of the threat of intensified hostilities in the Gulf.

A list of those who attended the meeting is attached.

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To be constituted at the direction of the Energy Response Working Group Chairman.

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Tentative Work Program for the
International Energy Policy Group

- I. IEA Policy and Programs
 - a. Review of current statistics on oil imports of IEA countries in relation to Emergency Sharing System
 - b. U.S. policy relative to triggering IEA Sharing System
 - c. Desirability of consultation with allies on triggering system and/or other IEA activities
 - d. Coordination of stock policy through IEA
 - e. Activities vis-s-vis spot market in the IEA
 - f. Policies to support potential U.S. allocation obligation
- II. U.S. Energy Trade Issues
 - a. Oil export policy in an emergency
 - b. Oil import restrictions and fees
- III. Bilateral and Multilateral Issues
 - a. Pre-crisis contacts to promote stability
 - b. Promotion of alternative pipeline arrangements in Gulf area
 - c. Diplomatic approaches to increase production in crisis
 - d. Contacts with GCC and OPEC
- IV. Global Energy Production, Distribution, and Stocks
 - a. Summary of production - spare capacity of oil producers
 - b. Review of distribution patterns, i.e., role of majors, producer companies, etc.
 - c. Stock levels in consuming countries
- V. Transportation Security and Advance Warning Issues
 - a. Intelligence capabilities
 - b. Military capabilities
 - c. Response strategy

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1. Economic Impact on OECD
 - a. impact on Europe
 - b. impact on other OECD
2. LDC Economic Impact
 - a. general
 - b. impact on least developed IEA countries (e.g., Greece, Turkey, Portugal)
3. USSR/Eastern Europe Economic Impact
4. Energy Related BOP Financing
 - a. identification of most essential countries
 - b. degree of financing likely to be required
 - c. bilateral financing options
 - d. IMF and other Multilateral Institution financing
5. U.S. Foreign Trade

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I. Scenario Definition -- Direct Military Fuel Requirements

1. Business as usual -- Current direct fuel requirements
2. Conservation scenario -- Minimum activity, designed to reduce short run fuel requirements when no military threat is perceived.
 - a. Impact on military preparedness
 - b. Impact on military fuel inventories
3. Military conflict fuel requirements
 - a. Limited conflict (in the Persian Gulf)
 - i. Direct fuel requirements
 - b. Major conflict (major ground war in the Middle East or elsewhere).
 - i. Direct and indirect military fuel requirements

II. Military Fuel Supplies

1. Guaranteed supplies -- Supplies unlikely to be interdicted by Iraq-Iran escalation.
2. Supplies at risk -- Likely to be cut off or interdicted by Iran-Iran escalation.
 - a. Persian Gulf
 - b. Non-Persian Gulf, if any.
3. Shortfall required to be covered under various scenarios outlined in II A.
4. Potential sources and policy options
 - a. Military fuel reserves (including impact on military preparedness)
 - b. Commercial purchases
 - i. Within the US
 - ii. Outside the US
 - iii. Potential impact on the market
 - c. SPR set-aside recommendations if necessary to meet direct/indirect military fuel requirements.
 - d. DPA recommendations

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IESG Meeting
January 17, 1984
10:00 a.m.
D Conference Room

Attendance

<u>Name</u>	<u>Agency</u>	<u>Telephone</u>
Allen Wallis	State (E)	632-3256
Donald H. Pearlman	DOE	252-6476
	CIA (OGI)	
Tony Albrecht	State (EAP)	632-0366
Bill Martin	NSC	395-3044
Charles Schotta	Treasury	566-5881
James Placke	State (NEA)	632-9076
Ben Bonk	NSC	395-4985
Paul Boeker	State (S/P)	632-4734
John Holmes	State (EUR/RPE)	632-0310
Thomas Niles	State (EUR)	632-1010
Dave Burns	State (EB/ERP/ECC)	632-8097
Eart House	DOE (EP)	252-2443
Allan Wendt	State (EB/ERP)	632-1498
Dave Tarbell	Defense (OSD/ISA)	695-2659
Richard Fairbanks	State (S/SA)	632-1868
Charles Patrizia	State (S/SA)	632-1868
Donald J. Igo	Transportation	426-0783
John Brodman	DOE (IA)	252-5915
David Sloan	State (EB/ERP/EPC)	632-3295
Kaarn Weaver	State (E)	632-8854
Martin Smith	White House (OPD)	456-7993
H.P. Goldfield	Commerce	377-1112
Joseph Yancik	Commerce	377-1466

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International Energy Security Group Meeting
January 20, 1984

Summary of Discussion

Ambassador Richard Fairbanks, S/SA, chaired the meeting. Its purpose was to approve the work programs of the subgroups formed by the IESG to work on the contingency planning exercise. Before moving into the substance of the meeting, the Chairman drew the attention of participants to the IEA's mid-January oil market report (Paris 02542), a useful statistical update on energy usage, stockpiling and dependency on the Gulf. Major topics addressed at the meeting follow.

(a) Iran/Iraq - Winter weather is forestalling significant military action and will probably continue to do so until March. Iran has been placed on the terrorism list and is now subject to additional U.S. trade restraints, especially on items with possible military application. Some relaxation in USG restrictions on trade with Iraq may occur, but this would not in any way involve a change in policy on arms shipments. The Chairman emphasized that U.S. policy remains preventing domination by either belligerent, that the U.S. is not shipping arms to either side, and that the U.S. policy was to support UN Resolution 540. He also stressed the need for complete coordination between the DOE and State Department working groups.

(b) International Energy Policy Group (IENPG) - The first meeting of the IENPG was held on January 19. Its participants agreed on a work program (attached) and a January 30 due date for draft papers. NSDD 87 provides a policy framework for the group's activities. State and DOE representatives have coordinated closely to insure that the work of the IENPG and the Energy Research Working Group (ERWG) are complementary. If useful, joint IENPG/ERWG meetings may be held.

(c) International Economic Policy Group - The International Economic Policy Group (IECPG) held its first meeting on January 20. The IECPG devised a work program and set a February 1 deadline for completion of papers. The group will draw on the work of the McNamar exercise as appropriate. It was agreed that the energy and economic policy sub-groups would coordinate on issues of mutual interest.

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(d) National Security Energy Requirements Group - A sub-group will not be constituted formally. DOD will fulfill informational needs with written material which should be ready as early as January 24.

(e) The Product - As the final product will be for Cabinet use, it must be timely, clear, concise, and well coordinated throughout. The IESG will ensure that key, top-level policy makers receive what they need -- no more and no less. The final product will be in notebook format, to include basic data and relevant issues. Graphics to support Cabinet level briefings/discussions would be useful. The group agreed that pieces of the final product need not be classified higher than SECRET, but that the final package would be classified TOP SECRET with very limited distribution. The group also agreed that the question of who specifically would be responsible for implementing specific actions in a crisis needed to be addressed. William Martin, NSC, noted the need for one top man, probably Secretary Hodel, to be responsible for the overall operation.

(f) Next Meeting - The IESG will meet next on February 7 at 10 a.m. to review initial drafts of sub-group papers, provide further direction and pinpoint any decisions which may be required.

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Work Program for the
International Energy Policy Group

- I. Global Energy Production, Distribution, and Stocks (DOE/CIA)
 - a. Summary of production - spare capacity of oil producers
 - b. Review of distribution of patterns, i.e., role of majors, producer companies, etc.
 - c. Stock levels in consuming countries
 - d. Review of current statistics on oil imports of IEA countries in relation to Emergency Sharing system
 - e. Methods to assess nature and duration of crisis
- II. IEA Policy and Programs
 - a. Determine U.S. policy relative to triggering IEA Sharing System including alternatives to a selective trigger situation (State)(Joint)
 - b. Assess desirability of consultation in advance with allies on triggering system and/or other IEA activities (State)
 - c. Evaluate coordination of stock policy through IEA (State)(Joint)
 - d. Assess initiatives to promote higher stock levels in IEA countries
 - e. Discuss activities vis-a-vis spot market in the IEA (State)(Joint)
 - f. Outline policies to support potential U.S. allocation obligation, including emergency measures in absence of EPCA 252, including fair sharing (DOE)(Joint)
 - g. Assure IEA/NATO coordination (DOE)(Joint)
- III. Bilateral and Multilateral Issues
 - a. Pre-crisis contacts to deter escalation (State/NEA)
 - b. Alternative pipeline arrangements in Gulf area (State/NEA)
 - c. Bilateral diplomatic approaches to increase production in crisis (State/NEA)
 - d. Desirability of contacts with GCC and OPEC (State)
 - e. Israel/Korea and other possible bilateral energy commitments (State)
 - f. Other potential bilateral requests (State)
- IV. Transportation Security and Advance Warning Issues
 - a. Intelligence capabilities (CIA)
 - b. General description of military policy and capabilities in Persian Gulf area (DOD)
 - c. Response options (DOD)
- V. U.S. Energy Trade Issues
 - a. Oil export policy in an emergency (DOE)(Joint)
 - b. Oil import restrictions and fees (DOE)(Joint)

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Tentative Work Program
International Economic Policy Group

1. Economic Impact on Industrial Countries (growth, inflation, and current account)
 - a. Impact on Europe (CIA/State)
 - b. Impact on Japan (CIA)
 - c. Impact on other industrial countries (CIA/State)
 - d. Economic policy coordination -- where, how? (Treasury)
2. Economic Impact on LDC's (current account and debt service)
 - a. General (Treasury)
 - b. Least developed IEA countries (CIA/State)
 - c. Oil exporting countries (Treasury)
 - d. Heavily indebted oil importing countries (Treasury)
 - e. Other LDC's (Treasury)
3. Economic Impact on USSR/Eastern Europe (CIA)
 - a. Current account
 - b. Hard currency earnings
 - c. Debt service
4. Impact on Energy Industry (DOE/DOC/USTR)
5. Impact on Financial System
 - a. Exchange rate impacts (CEA)
 - b. Effect on commercial banks (Treasury)
 - c. Financing requirements (Treasury)
 - d. Financing options (Treasury)
 - 1) Commercial banks
 - 2) Bilateral options
 - 3) IMF and other multilateral institutions
6. Impact on energy price sensitive imports and exports (USTR/DOC/DOE)

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NATIONAL SECURITY ENERGY REQUIREMENTS

- I. Current Consumption and Historical Sources of Supply
- II. Projected Increase in Fuel Requirements as result of Persian Gulf Emergency
- III. Readiness vs Conservation
Sustainability vs Stock draw
- IV. NSDD-87 Initiatives
- V. Defense Production Act